



## Request for City Council Committee Action From the Finance Department

Date: May 7, 2002  
To: Ways and Means Committee  
Referral to: None

### Subject: Convention Center Debt

#### Recommendation

1. Request the Board of Estimate & Taxation to issue and sell \$31,000,000 of General Obligation Convention Center bonds to refund the outstanding bonds of the 1992 Sales Tax Refunding issue.
2. Request the Board of Estimate & Taxation to issue and sell up to \$155,000,000 of General Obligation Convention Center bonds to replace a majority of the existing Convention Center variable rate bonds.
3. Authorize the Finance Officer to make the necessary appropriation adjustments to accomplish the above.

#### Previous Directives

(any past Council actions or directions to staff)

Prepared or Submitted by Michael Abeln, Director, Capital & Debt Management, 673-3496 and Jack Qvale, Executive Secretary of the Board of Estimate & Taxation, 673-2029

Approved by: Patrick Born, City Finance Officer \_\_\_\_\_

John Moir, City Coordinator \_\_\_\_\_

Presenters in Committee: Patrick Born, City Finance Officer

#### Financial Impact (Check those that apply)

☐ No financial impact - or - Action is within current department budget.  
(If checked, go directly to Background/Supporting Information)

☐ Action requires an appropriation increase to the Capital Budget

☒ Action requires an appropriation increase to the Operating Budget

☐ Action provides increased revenue for appropriation increase

☐ Action requires use of contingency or reserves

☒ Other financial impact (Explain): This action will result in financial savings by refunding existing fixed rate convention center debt and reissuing at a lower fixed rate. In addition, interest rate risk will be minimized by converting a portion of the current variable rate debt to fixed rate. The related restructuring of principal maturities from these actions will provide more flexibility and financial capacity in future years.

☒ Request provided to the Budget Office when provided to the Committee Coordinator

**Community Impact** (use any categories that apply)

☐ Neighborhood Notification

☐ City Goals

☐ Comprehensive Plan

☐ Zoning Code

☐ Other

☐ Not applicable

## **Background/Supporting Information Attached**

1. As part of the overall financing plan for the convention center completion, the State of Minnesota provided the City with grant funds totaling \$87,145,000 to be used for principal reduction on the \$178,985,000 Sales Tax Refunding Bonds, Series 1992. This grant released sales tax capacity previously committed to the 1992 bonds and allowed the City to issue additional debt to complete the facility.

In February 2002, the final State grant contribution of \$81,527,000 was received by the City and on April 1, 2002 these funds were used to call for early redemption the Series 1992 principal maturities of April 2006 through April 2012. The remaining maturities of the 1992 issue for 2002 – 2005 totaling \$34,835,000 have interest rates between 5.90% and 6.15% and are callable by the City at a 2% premium. The 2002 maturities will be paid on their normal schedule. Even with paying the premium, the current interest rate environment is such that the City could issue “refunding” (replacement) bonds and achieve an estimated net present value savings in the range of \$700,000 to \$800,000 by refunding the 2003 – 2005 maturities.

Therefore, our recommendation is to request the Board of Estimate & Taxation to issue and sell \$31,000,000 of General Obligation bonds to refund the 2003 – 2005 maturities of the Sales Tax Refunding Bonds, Series 1992. This includes \$30,290,000 for principal redemption, \$605,800 for the redemption premium and \$104,200 for cost of issuance expenses. This issuance should be considered concurrently with the 2002 element of the conversion requested below.

2. The Board of Estimate & Taxation as per the adopted financing plan issued three series of variable rate bonds totaling \$204,800,000 to provide funds for the completion of the convention center. This approach was adopted to assist in managing cash flow during construction and to provide maximum flexibility for final debt structuring upon completion of the project based on current market and financial conditions. The Finance department recommends to the council that the majority of the variable rate debt be converted to fixed rate in two steps (2002 & 2003) leaving between \$50,000,000 to \$80,000,000 in variable rate mode.

Therefore, our recommendation is to request the Board of Estimate & Taxation to issue and sell up to \$155,000,000 of General Obligation bonds to accomplish the conversion of the variable rate mode debt to a fixed rate mode for the majority of the currently outstanding convention center variable rate debt.

3. The Finance department and Board of Estimate & Taxation will work to implement the above conversion of variable rate debt in two steps. The first step of \$75,000,000 will occur in June of 2002 and will be combined with the refunding addressed in #1 above. The second step is envisioned to take place in 2003. The combined outcome will be a convention center debt schedule that is approximately level at \$27,700,000 from 2003 through 2020 and will include variable rate debt in the 2015 to 2018 timeframe.

This structure extends the debt two years from the original plan but at the same time allows for a lower annual payment and provides future capacity over the last part of the debt service schedule to address financial issues that may arise.

The Finance Officer is authorized to make the necessary appropriation adjustments and transfers required to carry out the intent of this resolution.